

**CITY OF KALONA, IOWA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2012**

CITY OF KALONA, IOWA  
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CITY OF KALONA, IOWA  
OFFICIALS  
June 30, 2012

| <u>Name</u>               | <u>Title</u>       | <u>Term Expires</u> |
|---------------------------|--------------------|---------------------|
| (Before January, 2012)    |                    |                     |
| Jerry Kauffman            | Mayor              | January, 2012       |
| Ken Herington             | Mayor Pro tem      | January, 2014       |
| Steve Lafaurie            | Council Member     | January, 2012       |
| David Bentley             | Council Member     | January, 2014       |
| Claudine Miller-Zahradnek | Council Member     | January, 2012       |
| Mark Robe                 | Council Member     | January, 2014       |
| Ryan Schlabaugh           | City Administrator | Indefinite          |
| Karen Christner           | City Clerk         | Indefinite          |
| (After January, 2012)     |                    |                     |
| Ken Herington             | Mayor              | January, 2016       |
| Jenelle Bender            | Council Member     | January, 2016       |
| David Bentley             | Council Member     | January, 2014       |
| Greg Schmidt              | Council Member     | January, 2016       |
| Mark Robe                 | Council Member     | January, 2014       |
| Craig Spitzer             | Council Member     | January, 2014       |
| Ryan Schlabaugh           | City Administrator | Indefinite          |
| Karen Christner           | City Clerk         | Indefinite          |

# Gronewold, Bell, Kyhnn & Co. P.C.

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CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Kalona's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by officials, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component units, Kalona Library Foundation and Friends of the Kalona Library. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the cash basis fund balance, receipts and disbursements of the aggregate remaining fund information would have increased as summarized in Note 1.

In our opinion, except for the effects of omitting blended component units as discussed previously, the financial statements referred to previously present fairly, in all material respects, the cash basis financial position of the aggregate remaining fund information of the City of Kalona, Iowa, as of June 30, 2012, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

To the Honorable Mayor and  
Members of the City Council

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

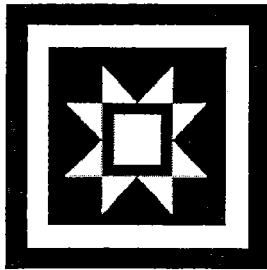
In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2012 on our consideration of the City of Kalona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Kalona's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2011 (none of which are presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the year ended June 30, 2005 (none of which are presented herein), were audited by other auditors whose report expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in page 1 and pages 20 through 23, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kalona's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 4d and 18 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Gamerwald, Ben, Kyhn & Co. P.C.*

Atlantic, Iowa  
December 21, 2012



# City Of Kalona

511 C Avenue – P.O. Box 1213

Kalona, Iowa 52247-1213

319-656-2310

## City of Kalona

### Management's Discussion & Analysis

The City of Kalona provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

#### 2012 FINANCIAL HIGHLIGHTS

- Revenues of the City decreased approximately 23% from fiscal year 2011 to 2012, including Downtown Project debt proceeds.
- Disbursements of the City decreased approximately 24% from fiscal year 2011 to 2012 due to completion of the downtown project and engineering on replacing bridge on A Avenue.
- The City's total cash basis net assets increased approximately .5% or \$12,066 due mainly to completion of Downtown Project. Of this amount, the assets of the governmental activities decreased approximately \$59,586 and the assets of the business type activities increased by approximately \$71,652.

#### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis shows basic financial statement and an overview of cash receipts and disbursements. The cash basis of accounting does not take into consideration accounts receivable or accounts payable.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This Statement includes information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or declining.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. These activities are financed mainly by property taxes and state/federal grants.
- Business Type Activities include the water system, sanitary sewer system, and garbage. Fees charged to the users finance these activities.

### *Fund Financial Statements*

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage funds. The water and sewer funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$1,713,760 to \$1,654,174. The analysis focuses on the changes in cash balances for governmental activities

### Changes in Cash Basis Net Assets of Governmental Activities

|                                                               | Year ended June 30, |              |
|---------------------------------------------------------------|---------------------|--------------|
|                                                               | 2012                | 2011         |
| Receipts and transfers:                                       |                     |              |
| Program receipts:                                             |                     |              |
| Charges for services                                          | \$ 124,082          | \$ 136,350   |
| Operating grants                                              | 259,820             | 258,841      |
| Capital grants                                                | 704,996             | 458,838      |
| General receipts:                                             |                     |              |
| Property tax                                                  | 713,203             | 684,972      |
| Debt service property tax                                     | 23,977              | 26,702       |
| Local option sales tax                                        | 225,995             | 212,026      |
| TIF revenues                                                  | 323,223             | 267,667      |
| Other city tax                                                | 13,599              | 13,097       |
| Grants and contributions not restricted to a specific purpose | 146,161             | 166,324      |
| Unrestricted interest                                         | 9,334               | 18,889       |
| Miscellaneous                                                 | 27,012              | 71,590       |
| Debt Proceeds                                                 | --                  | 1,600,000    |
| Transfer in                                                   | 544,163             | 394,171      |
| Total receipts and transfers                                  | 3,115,565           | 4,309,467    |
| Disbursements and transfers:                                  |                     |              |
| Public safety                                                 | 165,258             | 154,178      |
| Public works                                                  | 457,959             | 189,054      |
| Culture and recreation                                        | 471,200             | 482,032      |
| Community and economic development                            | 234,995             | 130,358      |
| General government                                            | 893,300             | 2,834,706    |
| Debt service                                                  | 447,876             | 285,455      |
| Transfers out                                                 | 504,563             | 363,920      |
| Total disbursements and transfers                             | 3,175,151           | 4,439,703    |
| Decrease in cash basis net assets                             | ( 59,586)           | ( 130,236)   |
| Cash basis net assets beginning of year                       | 1,713,760           | 1,843,996    |
| Cash basis net assets end of year                             | \$ 1,654,174        | \$ 1,713,760 |



## Changes in Cash Basis Net Assets of Business Type Activities

|                                         | Year ended June 30, |                   |
|-----------------------------------------|---------------------|-------------------|
|                                         | 2012                | 2011              |
| Receipts:                               |                     |                   |
| Program receipts:                       |                     |                   |
| Charges for services                    |                     |                   |
| Water                                   | \$ 335,293          | \$ 320,441        |
| Sewer                                   | 318,153             | 314,104           |
| Garbage                                 | 56,089              | 55,338            |
| Storm Water                             | 40,621              | 30,276            |
| General receipts:                       |                     |                   |
| Other general receipts                  | 10,371              | 20,314            |
| Total receipts                          | <u>760,527</u>      | <u>740,473</u>    |
| Disbursements and transfers:            |                     |                   |
| Water                                   | 230,647             | 198,170           |
| Sewer                                   | 161,475             | 159,073           |
| Garbage                                 | 50,161              | 49,839            |
| Debt Service                            | 206,992             | 205,962           |
| Transfers out                           | 39,600              | 30,251            |
| Total disbursements and transfers       | <u>688,875</u>      | <u>643,295</u>    |
| Increase in cash basis net assets       | 71,652              | 97,178            |
| Cash basis net assets beginning of year | <u>856,677</u>      | <u>759,499</u>    |
| Cash basis net assets end of year       | <u>\$ 928,329</u>   | <u>\$ 856,677</u> |

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Kalona, Iowa, completed the year, its funds reported a combined fund balance of \$1,654,174, which is a decrease of \$59,586. Major reasons for changes in balances from fiscal year 2011 are:

- The General Fund receipts showed an increase due to Riverboat Casino Funds and donations made, in regards to Downtown Project. Disbursements decreased due to Downtown Project and start of A Avenue Bridge Project.
- The Road Use Tax receipts increased slightly and is based on per capita dollars from the state and disbursements increased due to Downtown Project and engineering of replacement of A Avenue bridge Project.
- The Urban Renewal Tax Increment Fund receipts increased by \$55,556 in fiscal year 2012. The increase was due to the completion of street and sidewalk projects.
- The Debt Service Fund receipts decreased by \$2,870 from fiscal year 2011. The expenditures increased \$162,421 due to higher debt service requirements on general obligation debt.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund balance increased by \$39,775 from fiscal year 2011, due to moderate expenses for the year.

The Sewer Utility Fund balance increased by \$24,928 from fiscal year 2011 due to moderate expenses for the year.

## BUDGETARY HIGHLIGHTS

The City amended its budget once, resulting in an increase of receipts of approximately \$488,531 and disbursements of approximately \$1,036,289. Increase in receipts is due to contributions received for the Downtown Street Project and grant proceeds for the A Avenue Bridge Project. Increase in expenditures is due to the Downtown Street Project and construction on the A Avenue Bridge Project.

## DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$4,344,000 in bonds and other long-term debt, compared to approximately \$4,853,000 last year, as shown below.

### Outstanding Debt at Year-End

|                                                  | Year ended June 30, |                     |
|--------------------------------------------------|---------------------|---------------------|
|                                                  | 2012                | 2011                |
| General Obligation and State Revolving Fund Debt |                     |                     |
| 1995 Sewer Project (State Revolving Fund)        | \$ 103,000          | \$ 134,000          |
| 2003 Water Project (State Revolving Fund)        | 714,000             | 763,000             |
| 2003 Sewer Project (State Revolving Fund)        | 337,000             | 360,000             |
| 2004 Library Project                             | 945,000             | 1,005,000           |
| 2008 Sewer Project (State Revolving Fund)        | 1,125,000           | 1,151,000           |
| 2010 Downtown Project                            | <u>1,120,000</u>    | <u>1,440,000</u>    |
| Total                                            | <u>\$ 4,344,000</u> | <u>\$ 4,853,000</u> |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Kalona's elected and appointed officials considered factors such as tax rates and fees that will be charged for various City activities when they adopted the 2013 budget.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for all money received. If you have questions about this report or need additional information, please contact Ryan Schlabaugh, City Administrator, or Karen Christner, City Clerk, at Box 1213, Kalona, Iowa 52247 or call 319-656-2310.

CITY OF KALONA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the year ended June 30, 2012

|                                                               |                      | <u>Program Receipts</u>    |                                                                 |
|---------------------------------------------------------------|----------------------|----------------------------|-----------------------------------------------------------------|
|                                                               | <u>Disbursements</u> | <u>Charges for Service</u> | <u>Operating Grants, Contributions, and Restricted Interest</u> |
| Functions/Programs:                                           |                      |                            |                                                                 |
| Governmental activities:                                      |                      |                            |                                                                 |
| Public safety                                                 | \$ 165,258           | \$ 9,804                   | \$ --                                                           |
| Public works                                                  | 457,959              | 200                        | 224,133                                                         |
| Culture and recreation                                        | 471,200              | 111,854                    | 35,574                                                          |
| Community and economic development                            | 234,995              | --                         | --                                                              |
| General government                                            | 893,300              | 2,224                      | --                                                              |
| Debt service                                                  | 447,876              | --                         | 113                                                             |
| Total governmental activities                                 | <u>2,670,588</u>     | <u>124,082</u>             | <u>259,820</u>                                                  |
| Business type activities:                                     |                      |                            |                                                                 |
| Water                                                         | 304,444              | 335,293                    | --                                                              |
| Sewer                                                         | 294,670              | 318,153                    | --                                                              |
| Garbage                                                       | 50,161               | 96,710                     | --                                                              |
| Total business type activities                                | <u>649,275</u>       | <u>750,156</u>             | <u>--</u>                                                       |
| Total                                                         | <u>\$ 3,319,863</u>  | <u>\$ 874,238</u>          | <u>\$ 259,820</u>                                               |
| General Receipts:                                             |                      |                            |                                                                 |
| Property tax levied for:                                      |                      |                            |                                                                 |
| General purposes                                              |                      |                            |                                                                 |
| Debt service                                                  |                      |                            |                                                                 |
| Tax increment financing                                       |                      |                            |                                                                 |
| Local option sales tax                                        |                      |                            |                                                                 |
| Grants and contributions not restricted to a specific purpose |                      |                            |                                                                 |
| Unrestricted interest on investments                          |                      |                            |                                                                 |
| Miscellaneous                                                 |                      |                            |                                                                 |
| Transfers                                                     |                      |                            |                                                                 |
| Total general receipts and transfers                          |                      |                            |                                                                 |
| Change in cash basis net assets                               |                      |                            |                                                                 |
| Cash basis net assets beginning of year                       |                      |                            |                                                                 |
| Cash basis net assets end of year                             |                      |                            |                                                                 |

(continued next page)

| Program<br>Receipts<br>Capital Grants,<br>Contributions,<br>and Restricted<br>Interest | Net (Disbursements) Receipts and<br>Changes in Cash Basis Net Assets |                             |               |
|----------------------------------------------------------------------------------------|----------------------------------------------------------------------|-----------------------------|---------------|
|                                                                                        | Governmental<br>Activities                                           | Business Type<br>Activities | Total         |
| \$ --                                                                                  | \$ ( 155,454)                                                        | \$ --                       | \$ ( 155,454) |
| --                                                                                     | ( 233,626)                                                           | --                          | ( 233,626)    |
| --                                                                                     | ( 323,772)                                                           | --                          | ( 323,772)    |
| --                                                                                     | ( 234,995)                                                           | --                          | ( 234,995)    |
| 704,996                                                                                | ( 186,080)                                                           | --                          | ( 186,080)    |
| --                                                                                     | ( 447,763)                                                           | --                          | ( 447,763)    |
| 704,996                                                                                | ( 1,581,690)                                                         | --                          | ( 1,581,690)  |
| --                                                                                     | --                                                                   | 30,849                      | 30,849        |
| --                                                                                     | --                                                                   | 23,483                      | 23,483        |
| --                                                                                     | --                                                                   | 46,549                      | 46,549        |
| --                                                                                     | --                                                                   | 100,881                     | 100,881       |
| \$ --                                                                                  | ( 1,581,690)                                                         | 100,881                     | ( 1,480,809)  |
|                                                                                        | 726,802                                                              | --                          | 726,802       |
|                                                                                        | 23,977                                                               | --                          | 23,977        |
|                                                                                        | 323,223                                                              | --                          | 323,223       |
|                                                                                        | 225,995                                                              | --                          | 225,995       |
|                                                                                        | 146,161                                                              | --                          | 146,161       |
|                                                                                        | 9,334                                                                | 2,776                       | 12,110        |
|                                                                                        | 27,012                                                               | 7,595                       | 34,607        |
|                                                                                        | 39,600                                                               | ( 39,600)                   | --            |
|                                                                                        | 1,522,104                                                            | ( 29,229)                   | 1,492,875     |
|                                                                                        | ( 59,586)                                                            | 71,652                      | 12,066        |
|                                                                                        | 1,713,760                                                            | 856,677                     | 2,570,437     |
| \$                                                                                     | 1,654,174                                                            | \$ 928,329                  | \$ 2,582,503  |

CITY OF KALONA, IOWA  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - Continued

As of and for the year ended June 30, 2012

|                             |                      | <u>Program Receipts</u>                                         |
|-----------------------------|----------------------|-----------------------------------------------------------------|
|                             | <u>Disbursements</u> | <u>Charges for Service</u>                                      |
|                             |                      | <u>Operating Grants, Contributions, and Restricted Interest</u> |
| Cash Basis Net Assets       |                      |                                                                 |
| Restricted:                 |                      |                                                                 |
| Nonexpendable:              |                      |                                                                 |
| Cemetery perpetual care     |                      |                                                                 |
| Expendable:                 |                      |                                                                 |
| Streets                     |                      |                                                                 |
| Urban renewal projects      |                      |                                                                 |
| Debt service                |                      |                                                                 |
| Other purposes              |                      |                                                                 |
| Unrestricted                |                      |                                                                 |
| Total cash basis net assets |                      |                                                                 |

The accompanying notes are an integral part of these statements.

| Program<br>Receipts<br>Capital Grants,<br>Contributions,<br>and Restricted<br>Interest | Net (Disbursements) Receipts and<br>Changes in Cash Basis Net Assets |                             |                     |
|----------------------------------------------------------------------------------------|----------------------------------------------------------------------|-----------------------------|---------------------|
|                                                                                        | Governmental<br>Activities                                           | Business Type<br>Activities | Total               |
|                                                                                        | \$ 91,308                                                            | \$ --                       | \$ 91,308           |
|                                                                                        | 93,486                                                               | --                          | 93,486              |
|                                                                                        | 310,169                                                              | --                          | 310,169             |
|                                                                                        | 99,142                                                               | --                          | 99,142              |
|                                                                                        | 155,991                                                              | --                          | 155,991             |
|                                                                                        | <u>904,078</u>                                                       | <u>928,329</u>              | <u>1,832,407</u>    |
|                                                                                        | <u>\$ 1,654,174</u>                                                  | <u>\$ 928,329</u>           | <u>\$ 2,582,503</u> |

CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2012

|                                                               | <u>General</u>    | <u>Special<br/>Revenue<br/>Road Use<br/>Tax</u> |
|---------------------------------------------------------------|-------------------|-------------------------------------------------|
| Receipts:                                                     |                   |                                                 |
| Property tax                                                  | \$ 670,687        | \$ --                                           |
| Tax increment financing                                       | --                | --                                              |
| Other city tax                                                | 12,791            | --                                              |
| Licenses and permits                                          | 10,934            | --                                              |
| Use of money and property                                     | 36,195            | --                                              |
| Intergovernmental                                             | 482,625           | 224,133                                         |
| Charges for service                                           | 112,702           | --                                              |
| Miscellaneous                                                 | <u>404,703</u>    | <u>--</u>                                       |
| Total receipts                                                | <u>1,730,637</u>  | <u>224,133</u>                                  |
| Disbursements:                                                |                   |                                                 |
| Operating:                                                    |                   |                                                 |
| Public safety                                                 | 165,258           | --                                              |
| Public works                                                  | 134,815           | 305,864                                         |
| Culture and recreation                                        | 429,432           | --                                              |
| Community and economic development                            | 3,227             | --                                              |
| General government                                            | 880,872           | --                                              |
| Debt service                                                  | <u>--</u>         | <u>--</u>                                       |
| Total disbursements                                           | <u>1,613,604</u>  | <u>305,864</u>                                  |
| Excess (deficiency) of receipts over<br>(under) disbursements | 117,033           | ( 81,731)                                       |
| Other financing sources (uses):                               |                   |                                                 |
| Operating transfers in                                        | 111,763           | --                                              |
| Operating transfers out                                       | <u>( 292,168)</u> | <u>( 111,763)</u>                               |
| Total other financing sources (uses)                          | <u>( 180,405)</u> | <u>( 111,763)</u>                               |
| Net change in cash balances                                   | ( 63,372)         | ( 193,494)                                      |
| Cash balances beginning of year                               | <u>1,058,758</u>  | <u>286,980</u>                                  |
| Cash balances end of year                                     | <u>\$ 995,386</u> | <u>\$ 93,486</u>                                |

(continued next page)

| <u>Special<br/>Revenue</u>             |                     |                   |                     |
|----------------------------------------|---------------------|-------------------|---------------------|
| <u>Urban Renewal<br/>Tax Increment</u> | <u>Debt Service</u> | <u>Nonmajor</u>   | <u>Total</u>        |
| \$ --                                  | \$ 23,060           | \$ 42,516         | \$ 736,263          |
| 323,223                                | --                  | --                | 323,223             |
| --                                     | 917                 | 226,803           | 240,511             |
| --                                     | --                  | --                | 10,934              |
| --                                     | 113                 | --                | 36,308              |
| --                                     | --                  | --                | 706,758             |
| --                                     | --                  | --                | 112,702             |
| --                                     | --                  | --                | 404,703             |
| <u>323,223</u>                         | <u>24,090</u>       | <u>269,319</u>    | <u>2,571,402</u>    |
| --                                     | --                  | --                | 165,258             |
| --                                     | --                  | 17,280            | 457,959             |
| --                                     | --                  | 41,768            | 471,200             |
| 161,826                                | --                  | 69,942            | 234,995             |
| --                                     | --                  | 12,428            | 893,300             |
| --                                     | 447,876             | --                | 447,876             |
| <u>161,826</u>                         | <u>447,876</u>      | <u>141,418</u>    | <u>2,670,588</u>    |
| 161,397                                | ( 423,786)          | 127,901           | ( 99,186)           |
| --                                     | 432,400             | --                | 544,163             |
| <u>--</u>                              | <u>--</u>           | <u>( 100,632)</u> | <u>( 504,563)</u>   |
| <u>--</u>                              | <u>432,400</u>      | <u>( 100,632)</u> | <u>39,600</u>       |
| 161,397                                | 8,614               | 27,269            | ( 59,586)           |
| <u>148,772</u>                         | <u>90,528</u>       | <u>128,722</u>    | <u>1,713,760</u>    |
| <u>\$ 310,169</u>                      | <u>\$ 99,142</u>    | <u>\$ 155,991</u> | <u>\$ 1,654,174</u> |



CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES - Continued  
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2012

|                                        | <u>General</u>    | <u>Special<br/>Revenue<br/>Road Use<br/>Tax</u> |
|----------------------------------------|-------------------|-------------------------------------------------|
| Cash Basis Fund Balances               |                   |                                                 |
| Nonspendable - Cemetery perpetual care | \$ 91,308         | \$ --                                           |
| Restricted:                            |                   |                                                 |
| Streets                                | --                | 93,486                                          |
| Urban renewal purposes                 | --                | --                                              |
| Debt service                           | --                | --                                              |
| Other purposes                         | --                | --                                              |
| Unassigned                             | <u>904,078</u>    | <u>--</u>                                       |
| Total cash basis net assets            | <u>\$ 995,386</u> | <u>\$ 93,486</u>                                |

The accompanying notes are an integral part of these statements.

## Exhibit B

| <u>Special<br/>Revenue<br/>Urban Renewal<br/>Tax Increment</u> | <u>Debt Service</u> | <u>Nonmajor</u>   | <u>Total</u>        |
|----------------------------------------------------------------|---------------------|-------------------|---------------------|
| \$ --                                                          | \$ --               | \$ --             | \$ 91,308           |
| --                                                             | --                  | --                | 93,486              |
| 310,169                                                        | --                  | --                | 310,169             |
| --                                                             | 99,142              | --                | 99,142              |
| --                                                             | --                  | 155,991           | 155,991             |
| --                                                             | --                  | --                | 904,078             |
| <u>\$ 310,169</u>                                              | <u>\$ 99,142</u>    | <u>\$ 155,991</u> | <u>\$ 1,654,174</u> |

CITY OF KALONA, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

As of and for the year ended June 30, 2012

|                                                           | Enterprise Funds  |                   |                  |                   |
|-----------------------------------------------------------|-------------------|-------------------|------------------|-------------------|
|                                                           | Water             | Sewer             | Garbage          | Total             |
| Operating receipts:                                       |                   |                   |                  |                   |
| License and permits                                       | \$ 1,634          | \$ 1,750          | \$ --            | \$ 3,384          |
| Charges for services                                      | <u>333,659</u>    | <u>316,403</u>    | <u>96,710</u>    | <u>746,772</u>    |
| Total operating receipts                                  | <u>335,293</u>    | <u>318,153</u>    | <u>96,710</u>    | <u>750,156</u>    |
| Operating disbursements:                                  |                   |                   |                  |                   |
| Business type activities                                  | <u>230,647</u>    | <u>161,475</u>    | <u>50,161</u>    | <u>442,283</u>    |
| Total operating disbursements                             | <u>230,647</u>    | <u>161,475</u>    | <u>50,161</u>    | <u>442,283</u>    |
| Excess of operating receipts over operating disbursements | 104,646           | 156,678           | 46,549           | 307,873           |
| Non-operating receipts (disbursements):                   |                   |                   |                  |                   |
| Interest on investments                                   | 1,712             | 1,064             | --               | 2,776             |
| Miscellaneous                                             | 7,214             | 381               | --               | 7,595             |
| Debt service                                              | <u>( 73,797)</u>  | <u>( 133,195)</u> | <u>--</u>        | <u>( 206,992)</u> |
| Net non-operating receipts (disbursements)                | <u>( 64,871)</u>  | <u>( 131,750)</u> | <u>--</u>        | <u>( 196,621)</u> |
| Excess of receipts over disbursements                     | 39,775            | 24,928            | 46,549           | 111,252           |
| Other financing sources (uses):                           |                   |                   |                  |                   |
| Operating transfers out                                   | <u>--</u>         | <u>--</u>         | <u>( 39,600)</u> | <u>( 39,600)</u>  |
| Total other financing sources (uses)                      | <u>--</u>         | <u>--</u>         | <u>( 39,600)</u> | <u>( 39,600)</u>  |
| Net change in cash balances                               | 39,775            | 24,928            | 6,949            | 71,652            |
| Cash balances beginning of year                           | <u>488,647</u>    | <u>310,446</u>    | <u>57,584</u>    | <u>856,677</u>    |
| Cash balances end of year                                 | <u>\$ 528,422</u> | <u>\$ 335,374</u> | <u>\$ 64,533</u> | <u>\$ 928,329</u> |
| Cash Basis Fund Balances                                  |                   |                   |                  |                   |
| Unrestricted                                              | <u>\$ 528,422</u> | <u>\$ 335,374</u> | <u>\$ 64,533</u> | <u>\$ 928,329</u> |
| Total cash basis fund balances                            | <u>\$ 528,422</u> | <u>\$ 335,374</u> | <u>\$ 64,533</u> | <u>\$ 928,329</u> |

The accompanying notes are an integral part of these statements.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kalona, Iowa is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and garbage utilities services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Kalona has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Units

The City has two component units. The Kalona Library Foundation, which is a non-profit corporation that is legally separate, is a component unit because it has the potential to provide benefits to the City of Kalona Library. The Friends of the Kalona Library is a separate non-profit organization created for the sole purpose of raising funds to support the Kalona Library. The City has elected to exclude the financial information of its component units from these financial statements. Both component units should be blended into the Special Revenue Funds of the City of Kalona.

Following is a summary of the approximate cash basis fund balances, receipts and disbursements of the aggregate component units as of and for the year ended June 30, 2012:

|               |                  |
|---------------|------------------|
| Fund Balance  | \$ <u>50,881</u> |
| Receipts      | \$ <u>6,398</u>  |
| Disbursements | \$ <u>9,715</u>  |

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Joint E911 Service Board and Washington County Assessor's Conference Board.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Presentation

Government-wide Financial Statements

The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charge and the capital improvement costs not paid from other funds.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is used to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

Enterprise:

The Garbage Fund accounts for the operation and maintenance of the City's garbage service.

C. Measurement Focus and Basis of Accounting

The City of Kalona maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City had no investments with credit risk.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue capital loan notes are as follows:

| Year Ending<br>June 30, | General Obligation<br>Capital Loan Notes |                   | Revenue<br>Capital Loan Notes |                   | Total               |                   |
|-------------------------|------------------------------------------|-------------------|-------------------------------|-------------------|---------------------|-------------------|
|                         | Principal                                | Interest          | Principal                     | Interest          | Principal           | Interest          |
| 2013                    | \$ 385,000                               | \$ 48,922         | \$ 134,000                    | \$ 68,370         | \$ 519,000          | \$ 117,292        |
| 2014                    | 385,000                                  | 39,115            | 138,000                       | 64,350            | 523,000             | 103,465           |
| 2015                    | 385,000                                  | 29,243            | 142,000                       | 60,210            | 527,000             | 89,453            |
| 2016                    | 230,000                                  | 19,305            | 110,000                       | 55,950            | 340,000             | 75,255            |
| 2017                    | 70,000                                   | 15,810            | 114,000                       | 52,650            | 184,000             | 68,460            |
| 2018-2022               | 415,000                                  | 55,093            | 622,000                       | 210,030           | 1,037,000           | 265,123           |
| 2023-2027               | 195,000                                  | 7,722             | 398,000                       | 120,300           | 593,000             | 128,022           |
| 2028-2032               | --                                       | --                | 230,000                       | 79,770            | 230,000             | 79,770            |
| 2033-2037               | --                                       | --                | 271,000                       | 42,930            | 271,000             | 42,930            |
| 2038-2039               | --                                       | --                | 120,000                       | 5,430             | 120,000             | 5,430             |
|                         | <u>\$ 2,065,000</u>                      | <u>\$ 215,210</u> | <u>\$ 2,279,000</u>           | <u>\$ 759,990</u> | <u>\$ 4,344,000</u> | <u>\$ 975,200</u> |

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,067,000 in water revenue notes issued in August, 2003. Proceeds from the notes provided financing for the repair and improvement of the water system. The notes are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 69 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$860,850. For the current year, principal and interest paid and total customer net receipts were \$71,890 and \$104,646, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,192,000 in sewer revenue notes issued in February, 1995, December, 2003 and November, 2008. Proceeds from the notes provided financing for the repair and improvement of the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2039. Annual principal and interest payments on the notes are expected to require less than 83 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,178,140. For the current year, principal and interest paid and total customer net receipts were \$129,350 and \$156,678, respectively. Existing net assets are used to meet debt service payments in years when the net receipts are not sufficient.



CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue capital loan notes include the following provisions.

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient transfers shall be made into a separate and special fund to pay current expenses. The fund shall be known as the Sewer/Water Utility Operation and Maintenance Fund. There shall be deposited in the fund each month an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12 of expenses payable on an annual basis such as insurance.
- c. Moneys shall next be disbursed to a separate and special fund to pay principal of and interest on the Notes and Parity Obligations known as the Sewer/Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6 of the installment of interest coming due on the next payment and 1/12 of the installment of principal coming due on the next payment date.

NOTE 4 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% (5.78% effective July 1, 2012) of their annual covered salary and the City is required to contribute 8.07% (8.67% effective July 1, 2012) of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$35,964, \$30,017, and \$26,245, respectively, equal to the required contribution for each year.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2012 is \$11,014 for vacation and \$8,578 for comp time, for a total liability of \$19,592. This liability has been computed on rates of pay in effect at June 30, 2012.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 6 - RISK MANAGEMENT

The City of Kalona is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u>            | <u>Amount</u>     |
|--------------------|---------------------------------|-------------------|
| General            | Special Revenue<br>Road Use Tax | \$ 111,763        |
| Debt Service       | General                         | 292,168           |
|                    | Special Revenue                 |                   |
|                    | LOST                            | 100,632           |
|                    | Enterprise                      |                   |
|                    | Garbage                         | 39,600            |
|                    |                                 | <u>432,400</u>    |
|                    |                                 | <u>\$ 544,163</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Washington County to obtain police protection for its citizens. The City paid \$72,517 for services during the year ended June 30, 2012, and approved an agreement in the amount of \$74,233 for the year ending June 30, 2013.

NOTE 9 - CONDUIT DEBT OBLIGATION

On July 11, 2005, Facility Revenue Bonds, Iowa Mennonite School Project, in the amount of \$1,300,000 were issued. These revenue bonds were issued for the purpose of financing the cost of constructing, equipping and furnishing a fine arts facility on the Iowa Mennonite School Campus. These bonds are a special limited obligation of the City and shall not be payable from or charged upon any funds other than Loan Repayments made by the Iowa Mennonite School, a Tax Exempt Organization. The bonds do not constitute a debt of the City within any constitutional or statutory limitation.

CITY OF KALONA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the City offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all City employees, and the retiree must pay a health insurance premium equal to that charged for current employees. There are 8 active employees and no retirees currently covered by the Plan.

Potential for Liability: The City currently finances a retiree benefit plan on a pay-as-you-go basis. A review of the City's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists.

NOTE 11 - CAPITAL PROJECTS FUND

The City uses the General Fund, general government function, and Urban Renewal Tax Increment Fund, community and economic development function, to account for the resources used in the acquisition and construction of capital facilities. These expenditures should be budgeted and reported under the Capital Projects Fund, capital projects function. The City's total capital projects expenditures for the year ended June 30, 2012 were \$781,529.

NOTE 12 - CONTINGENCY

Subsequent Event

The City has evaluated all subsequent events through December 21, 2012, the date the financial statements were available to be issued.

\* \* \*

## OTHER INFORMATION

CITY OF KALONA, IOWA  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETRY FUNDS  
OTHER INFORMATION

Year ended June 30, 2012

|                                                                                                                          | <u>Governmental<br/>Funds Actual</u> | <u>Proprietary<br/>Funds Actual</u> | <u>Total</u>        |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|---------------------|
| Receipts:                                                                                                                |                                      |                                     |                     |
| Property tax                                                                                                             | \$ 736,263                           | \$ --                               | \$ 736,263          |
| Tax increment financing                                                                                                  | 323,223                              | --                                  | 323,223             |
| Other city tax                                                                                                           | 240,511                              | --                                  | 240,511             |
| Licenses and permits                                                                                                     | 10,934                               | 3,384                               | 14,318              |
| Use of money and property                                                                                                | 36,308                               | 2,776                               | 39,084              |
| Intergovernmental                                                                                                        | 706,758                              | --                                  | 706,758             |
| Charges for service                                                                                                      | 112,702                              | 746,772                             | 859,474             |
| Miscellaneous                                                                                                            | 404,703                              | 7,595                               | 412,298             |
| Total receipts                                                                                                           | <u>2,571,402</u>                     | <u>760,527</u>                      | <u>3,331,929</u>    |
| Disbursements:                                                                                                           |                                      |                                     |                     |
| Public safety                                                                                                            | 165,258                              | --                                  | 165,258             |
| Public works                                                                                                             | 457,959                              | --                                  | 457,959             |
| Culture and recreation                                                                                                   | 471,200                              | --                                  | 471,200             |
| Community and economic<br>development                                                                                    | 234,995                              | --                                  | 234,995             |
| General government                                                                                                       | 893,300                              | --                                  | 893,300             |
| Debt service                                                                                                             | 447,876                              | --                                  | 447,876             |
| Business type activities                                                                                                 | --                                   | 649,275                             | 649,275             |
| Total disbursements                                                                                                      | <u>2,670,588</u>                     | <u>649,275</u>                      | <u>3,319,863</u>    |
| Excess (deficiency) of receipts<br>over (under) disbursements                                                            | ( 99,186)                            | 111,252                             | 12,066              |
| Other financing sources (uses), net                                                                                      | <u>39,600</u>                        | <u>( 39,600)</u>                    | <u>--</u>           |
| Excess (deficiency) of receipts and<br>other financing sources over (under)<br>disbursements and other financing<br>uses | ( 59,586)                            | 71,652                              | 12,066              |
| Balances beginning of year                                                                                               | <u>1,713,760</u>                     | <u>856,677</u>                      | <u>2,570,437</u>    |
| Balances end of year                                                                                                     | <u>\$ 1,654,174</u>                  | <u>\$ 928,329</u>                   | <u>\$ 2,582,503</u> |

See accompanying independent auditor's report.

| Budgeted Amounts    |                     | Final to          |
|---------------------|---------------------|-------------------|
| Original            | Final               | Total<br>Variance |
| \$ 730,110          | \$ 730,110          | \$ 6,153          |
| 324,441             | 324,441             | ( 1,218)          |
| 234,345             | 234,345             | 6,166             |
| 13,500              | 16,635              | ( 2,317)          |
| 60,568              | 60,568              | ( 21,484)         |
| 461,291             | 920,342             | ( 213,584)        |
| 875,754             | 882,624             | ( 23,150)         |
| 148,862             | 168,337             | 243,961           |
| <u>2,848,871</u>    | <u>3,337,402</u>    | <u>( 5,473)</u>   |
| 169,795             | 169,795             | 4,537             |
| 380,909             | 508,261             | 50,302            |
| 471,229             | 539,127             | 67,927            |
| 499,493             | 514,302             | 279,307           |
| 159,046             | 899,236             | 5,936             |
| 417,650             | 457,250             | 9,374             |
| 680,561             | 727,001             | 77,726            |
| <u>2,778,683</u>    | <u>3,814,972</u>    | <u>495,109</u>    |
| 70,188              | ( 477,570)          | 489,636           |
| <u>--</u>           | <u>( 544,163)</u>   | <u>544,163</u>    |
| 70,188              | ( 1,021,733)        | 1,033,799         |
| <u>2,689,566</u>    | <u>3,178,097</u>    | <u>( 607,660)</u> |
| <u>\$ 2,759,754</u> | <u>\$ 2,156,364</u> | <u>\$ 426,139</u> |

CITY OF KALONA, IOWA  
NOTES TO OTHER INFORMATION -  
BUDGETARY REPORTING

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,036,289. The budget amendment is reflected in the final budgeted amount.

## SUPPLEMENTARY INFORMATION



CITY OF KALONA, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2012

|                                                               | Special Revenue       |                      |                   |
|---------------------------------------------------------------|-----------------------|----------------------|-------------------|
|                                                               | Local<br>Option Sales | Employee<br>Benefits | Total             |
| Receipts:                                                     |                       |                      |                   |
| Property tax                                                  | \$ --                 | \$ 42,516            | \$ 42,516         |
| Other city tax                                                | <u>225,995</u>        | <u>808</u>           | <u>226,803</u>    |
| Total receipts                                                | <u>225,995</u>        | <u>43,324</u>        | <u>269,319</u>    |
| Disbursements:                                                |                       |                      |                   |
| Operating:                                                    |                       |                      |                   |
| Public works                                                  | --                    | 17,280               | 17,280            |
| Culture and recreation                                        | --                    | 41,768               | 41,768            |
| Community and economic development                            | 69,942                | --                   | 69,942            |
| General government                                            | <u>--</u>             | <u>12,428</u>        | <u>12,428</u>     |
| Total disbursements                                           | <u>69,942</u>         | <u>71,476</u>        | <u>141,418</u>    |
| Excess (deficiency) of receipts over (under)<br>disbursements | 156,053               | ( 28,152)            | 127,901           |
| Other financing sources (uses):                               |                       |                      |                   |
| Operating transfers out                                       | <u>( 100,632)</u>     | <u>--</u>            | <u>( 100,632)</u> |
| Total other financing sources (uses)                          | <u>( 100,632)</u>     | <u>--</u>            | <u>( 100,632)</u> |
| Net change in cash balances                                   | 55,421                | ( 28,152)            | 27,269            |
| Cash balances beginning of year                               | <u>51,648</u>         | <u>77,074</u>        | <u>128,722</u>    |
| Cash balances end of year                                     | <u>\$ 107,069</u>     | <u>\$ 48,922</u>     | <u>\$ 155,991</u> |
| Cash Basis Fund Balances                                      |                       |                      |                   |
| Restricted                                                    |                       |                      |                   |
| Other purposes                                                | <u>\$ 107,069</u>     | <u>\$ 48,922</u>     | <u>\$ 155,991</u> |
| Total cash basis fund balances                                | <u>\$ 107,069</u>     | <u>\$ 48,922</u>     | <u>\$ 155,991</u> |

See accompanying independent auditor's report.

CITY OF KALONA, IOWA  
SCHEDULE OF INDEBTEDNESS  
Year ended June 30, 2012

| <u>Obligation</u>                                     | <u>Date of<br/>Issue</u> | <u>Interest<br/>Rates</u> | <u>Amount<br/>Originally<br/>Issued</u> |
|-------------------------------------------------------|--------------------------|---------------------------|-----------------------------------------|
| General Obligation Capital Loan Notes:<br>Library     | June 1, 2004             | 1.30% - 4.55%             | \$ 1,400,000                            |
| General Obligation Capital Loan Notes:<br>Series 2010 | November 15, 2010        | 2.75%                     | 1,600,000                               |
| Total General Obligation Notes                        |                          |                           |                                         |
| Revenue Notes Payable:<br>State revolving fund loans  |                          |                           |                                         |
| Sewer                                                 | February 13, 1995        | 3.00%                     | 489,000                                 |
| Water                                                 | August 26, 2003          | 3.00%                     | 1,067,000                               |
| Sewer                                                 | December 12, 2003        | 3.00%                     | 503,000                                 |
| Sewer                                                 | November 26, 2008        | 3.00%                     | 1,200,000                               |
| Total SRF loans                                       |                          |                           |                                         |
| Total                                                 |                          |                           |                                         |

See accompanying independent auditor's report.

| <u>Balance<br/>Beginning<br/>of Year</u> | <u>Drawn<br/>During<br/>Year</u> | <u>Redeemed<br/>During<br/>Year</u> | <u>Balance<br/>End<br/>of Year</u> | <u>Interest<br/>Paid</u> | <u>Interest<br/>Due and<br/>Unpaid</u> |
|------------------------------------------|----------------------------------|-------------------------------------|------------------------------------|--------------------------|----------------------------------------|
| \$1,005,000                              | \$ --                            | \$ 60,000                           | \$ 945,000                         | \$ 30,476                | \$ 1,693                               |
| <u>1,440,000</u>                         | <u>--</u>                        | <u>320,000</u>                      | <u>1,120,000</u>                   | <u>37,400</u>            | <u>2,567</u>                           |
| <u>2,445,000</u>                         | <u>--</u>                        | <u>380,000</u>                      | <u>2,065,000</u>                   | <u>67,876</u>            | <u>4,260</u>                           |
| 134,000                                  | --                               | 31,000                              | 103,000                            | 4,020                    | 254                                    |
| 763,000                                  | --                               | 49,000                              | 714,000                            | 22,890                   | 1,761                                  |
| 360,000                                  | --                               | 23,000                              | 337,000                            | 10,800                   | 831                                    |
| <u>1,151,000</u>                         | <u>--</u>                        | <u>26,000</u>                       | <u>1,125,000</u>                   | <u>34,530</u>            | <u>2,774</u>                           |
| <u>2,408,000</u>                         | <u>--</u>                        | <u>129,000</u>                      | <u>2,279,000</u>                   | <u>72,240</u>            | <u>5,620</u>                           |
| <u>\$4,853,000</u>                       | <u>\$ --</u>                     | <u>\$ 509,000</u>                   | <u>\$ 4,344,000</u>                | <u>\$ 140,116</u>        | <u>\$ 9,880</u>                        |

CITY OF KALONA, IOWA  
BOND AND NOTE MATURITIES  
June 30, 2012

| Year ending<br>June 30, | General Obligation Bonds and Notes      |                   |                                        |                    |                    |
|-------------------------|-----------------------------------------|-------------------|----------------------------------------|--------------------|--------------------|
|                         | GO Capital Loan Notes -<br>Library Note |                   | GO Capital Loan Notes -<br>Series 2010 |                    | Total              |
|                         | Issued                                  |                   | Issued                                 |                    |                    |
|                         | June 1, 2004                            |                   | November 15, 2010                      |                    |                    |
|                         | Interest<br>Rates                       | Amount            | Interest<br>Rates                      | Amount             |                    |
| 2013                    | 1.55%                                   | \$ 65,000         | 2.75%                                  | \$ 320,000         | \$ 385,000         |
| 2014                    | 1.65%                                   | 65,000            | 2.75%                                  | 320,000            | 385,000            |
| 2015                    | 1.75%                                   | 65,000            | 2.75%                                  | 320,000            | 385,000            |
| 2016                    | 1.85%                                   | 70,000            | 2.75%                                  | 160,000            | 230,000            |
| 2017                    | 1.95%                                   | 70,000            |                                        |                    | 70,000             |
| 2018-2022               | 2.05-2.45%                              | 415,000           |                                        |                    | 415,000            |
| 2023-2024               | 2.55-2.65%                              | <u>195,000</u>    |                                        |                    | <u>195,000</u>     |
|                         |                                         | <u>\$ 945,000</u> |                                        | <u>\$1,120,000</u> | <u>\$2,065,000</u> |

State Revolving Funds Notes

| Year ending<br>June 30, | Sewer Revenue Bonds         |                   |                             |                   |
|-------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|                         | Issued<br>February 13, 1995 |                   | Issued<br>December 12, 2003 |                   |
|                         | Interest<br>Rates           | Amount            | Interest<br>Rates           | Amount            |
|                         |                             |                   |                             |                   |
| 2013                    | 3.00%                       | \$ 33,000         | 3.00%                       | \$ 24,000         |
| 2014                    | 3.00%                       | 34,000            | 3.00%                       | 24,000            |
| 2015                    | 3.00%                       | 36,000            | 3.00%                       | 25,000            |
| 2016                    |                             |                   | 3.00%                       | 26,000            |
| 2017                    |                             |                   | 3.00%                       | 27,000            |
| 2018-2022               |                             |                   | 3.00%                       | 146,000           |
| 2023-2027               |                             |                   | 3.00%                       | 65,000            |
| 2028-2032               |                             |                   |                             |                   |
| 2033-2037               |                             |                   |                             |                   |
| 2038-2039               |                             |                   |                             |                   |
|                         |                             | <u>\$ 103,000</u> |                             | <u>\$ 337,000</u> |

See accompanying independent auditor's report.

| State Revolving Funds Notes |                   |                                     |                     |                    |
|-----------------------------|-------------------|-------------------------------------|---------------------|--------------------|
| Water Revenue Bonds         |                   | Sewer Revenue Capital<br>Loan Notes |                     |                    |
| Issued<br>August 26, 2003   |                   | Issued<br>November 26, 2008         |                     |                    |
| Interest<br>Rates           | Amount            | Interest<br>Rates                   | Amount              | Total              |
| 3.00%                       | \$ 50,000         | 3.00%                               | \$ 27,000           | \$ 134,000         |
| 3.00%                       | 52,000            | 3.00%                               | 28,000              | 138,000            |
| 3.00%                       | 53,000            | 3.00%                               | 28,000              | 142,000            |
| 3.00%                       | 55,000            | 3.00%                               | 29,000              | 110,000            |
| 3.00%                       | 57,000            | 3.00%                               | 30,000              | 114,000            |
| 3.00%                       | 310,000           | 3.00%                               | 166,000             | 622,000            |
| 3.00%                       | 137,000           | 3.00%                               | 196,000             | 398,000            |
|                             |                   | 3.00%                               | 230,000             | 230,000            |
|                             |                   | 3.00%                               | 271,000             | 271,000            |
|                             |                   | 3.00%                               | 120,000             | 120,000            |
|                             | <u>\$ 714,000</u> |                                     | <u>\$ 1,125,000</u> | <u>\$2,279,000</u> |

CITY OF KALONA, IOWA  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS  
For the Last Eight Years

|                                    | <u>2012</u>         | <u>2011</u>         | <u>2010</u>         |
|------------------------------------|---------------------|---------------------|---------------------|
| Receipts:                          |                     |                     |                     |
| Property tax                       | \$ 736,263          | \$ 711,674          | \$ 755,896          |
| Tax increment financing            | 323,223             | 267,667             | 187,925             |
| Other city tax                     | 240,511             | 225,123             | 231,494             |
| Licenses and permits               | 10,934              | 10,493              | 13,194              |
| Use of money and property          | 36,308              | 42,711              | 63,930              |
| Intergovernmental                  | 706,758             | 258,583             | 242,173             |
| Charges for service                | 112,702             | 125,762             | 120,790             |
| Miscellaneous                      | <u>404,703</u>      | <u>673,283</u>      | <u>253,591</u>      |
| Total                              | <u>\$ 2,571,402</u> | <u>\$ 2,315,296</u> | <u>\$ 1,868,993</u> |
| Disbursements:                     |                     |                     |                     |
| Operating:                         |                     |                     |                     |
| Public safety                      | \$ 165,258          | \$ 154,178          | \$ 158,602          |
| Public works                       | 457,959             | 189,054             | 462,789             |
| Culture and recreation             | 471,200             | 482,032             | 641,988             |
| Community and economic development | 234,995             | 130,358             | 706,375             |
| General government                 | 893,300             | 2,834,706           | 794,759             |
| Debt service                       | 447,876             | 285,455             | 28,030              |
| Capital projects                   | <u>--</u>           | <u>--</u>           | <u>--</u>           |
| Total                              | <u>\$ 2,670,588</u> | <u>\$ 4,075,783</u> | <u>\$ 2,792,543</u> |

See accompanying independent auditor's report.

## Schedule 4

| <u>2009</u>         | <u>2008</u>         | <u>2007</u>         | <u>2006</u>         | <u>2005</u>         |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 698,056          | \$ 675,362          | \$ 668,988          | \$ 642,763          | \$ 565,919          |
| 215,652             | 103,253             | 222,404             | 204,193             | 256,747             |
| 214,175             | 244,718             | 233,659             | 163,745             | 193,729             |
| 18,053              | 6,335               | 4,228               | 4,190               | 31,300              |
| 49,743              | 75,555              | 203,833             | 32,292              | 3,633               |
| 353,212             | 371,898             | 226,786             | 209,545             | 203,853             |
| 86,906              | 92,198              | 83,288              | 73,917              | 67,064              |
| <u>167,519</u>      | <u>216,591</u>      | <u>64,000</u>       | <u>16,970</u>       | <u>40,876</u>       |
| <u>\$ 1,803,316</u> | <u>\$ 1,785,910</u> | <u>\$ 1,707,186</u> | <u>\$ 1,347,615</u> | <u>\$ 1,363,121</u> |
| <br>                |                     |                     |                     |                     |
| \$ 156,819          | \$ 167,840          | \$ 142,978          | \$ 133,259          | \$ 130,999          |
| 185,787             | 395,722             | 481,566             | 144,316             | 397,995             |
| 457,115             | 502,739             | 370,763             | 331,379             | 291,540             |
| <br>                |                     |                     |                     |                     |
| 364,541             | 485,000             | 348,316             | 216,009             | 254,635             |
| 144,508             | 399,324             | 186,825             | 169,350             | 111,373             |
| 24,268              | 25,340              | 26,248              | 54,750              | --                  |
| <u>10,992</u>       | <u>--</u>           | <u>--</u>           | <u>66,566</u>       | <u>1,246,982</u>    |
| <u>\$ 1,344,030</u> | <u>\$ 1,975,965</u> | <u>\$ 1,556,696</u> | <u>\$ 1,115,629</u> | <u>\$ 2,433,524</u> |

## COMMENTS AND RECOMMENDATIONS



# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of City of Kalona, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 21, 2012. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Kalona is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Kalona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Kalona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kalona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Honorable Mayor and  
Members of the City Council

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

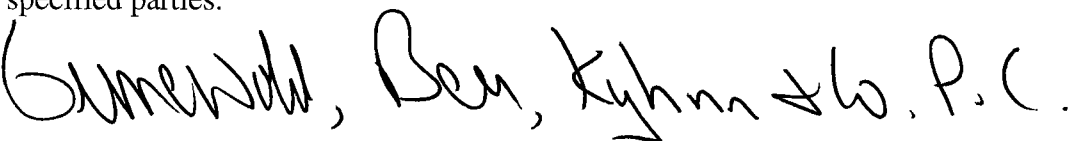
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kalona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Kalona's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Kalona's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Kalona and other parties to whom the City of Kalona may report. This report is not intended to be and should not be used by anyone other than these specified parties.



Atlantic, Iowa  
December 21, 2012

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2012

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

12-I-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: Since there are only three employees at city hall, it is difficult to segregate duties. Duties are segregated to the best of our ability.

Conclusion: Response accepted.

\* \* \*

CITY OF KALONA, IOWA

Schedule of Findings

Year ended June 30, 2012

PART II: Other Findings Related to Statutory Reporting

12-II-A Certified Budget: Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.

12-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

12-II-C Travel Expense: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

12-II-D Business Transactions: In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

12-II-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

12-II-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

12-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

12-II-H Revenue Bonds and Notes: No instances of non-compliance with the revenue bond and note resolutions were noted.

12-II-I Capital Projects Fund: The City has not properly used the Capital Projects Fund to pay for long-term capital projects they incurred throughout the year.

Recommendation: The City should utilize the Capital Projects Fund for the various projects they incur throughout the year. These expenditures should be budgeted and reported as capital projects disbursements.

Response: We will use the Capital Projects fund in the future.

Conclusion: Response accepted.

\* \* \*